

CITY OF MADRID

**Independent Auditors' Reports
Basic Financial Statements
Supplementary and Other Information
Schedule of Findings**

June 30, 2016

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CITY OF MADRID

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Gibbons	Mayor	Jan 2016
Lane Shaver	Mayor Pro tem	Jan 2016
Dave Cook	Council Member	Jan 2016
Steve Burich	Council Member	Jan 2018
Val Chapman	Council Member	Jan 2018
Kurt Kruse	Council Member	Jan 2018
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite

(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dirk Ringgenberg	Mayor	Jan 2020
Lane Shaver	Mayor Pro tem	Jan 2020
Steve Burich	Council Member	Jan 2018
Val Chapman	Council Member	Jan 2018
Kurt Kruse	Council Member	Jan 2018
Dave Cook	Council Member	Jan 2020
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6336

Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com
Nathan P. Minkel, CPA • nathan@bowmanandmillerpc.com

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 9 and 27 through 33, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2016 on our consideration of the City of Madrid's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Madrid's internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 5.9%, or approximately \$114,500, from fiscal year 2015 to fiscal year 2016. Property tax increased approximately \$30,000 while operating grants, contributions and restricted interest increased approximately \$55,700.
- Disbursements of the City's governmental activities increased 26%, or approximately \$435,800, in fiscal year 2016 from fiscal year 2015. General government, public works, and capital projects disbursements increased approximately \$45,500, \$160,500, and \$227,200, respectively.
- The City's total cash basis net position decreased 2.7%, or approximately \$73,300, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$86,300 and the cash basis net position of the business type activities decreased approximately \$159,600.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Emergency, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, increasing from approximately \$2,007,000 to approximately \$2,093,700. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 254,971	250,625
Operating grants, contributions and restricted interest	401,864	346,172
Capital grants, contributions and restricted interest	9,682	7,500
General receipts:		
Property tax	1,009,241	979,397
Tax increment financing	105,374	100,075
Other city tax	249,477	235,934
Special assessments	1,081	1,772
Unrestricted interest on investments	4,119	4,092
Other general receipts	<u>28,173</u>	<u>23,952</u>
Total receipts	<u>2,063,982</u>	<u>1,949,519</u>
Disbursements:		
Public safety	347,778	359,917
Public works	611,082	450,565
Health and social services	4,954	4,285
Culture and recreation	237,768	222,746
Community and economic development	65,833	64,023
General government	226,448	180,960
Debt service	378,622	381,384
Capital projects	<u>241,798</u>	<u>14,617</u>
Total disbursements	<u>2,114,283</u>	<u>1,678,497</u>
Change in cash basis net position before transfers	(50,301)	271,022
Transfers, net	<u>136,605</u>	-
Change in cash basis net position	86,304	271,022
Cash basis net position beginning of year	<u>2,007,349</u>	<u>1,736,327</u>
Cash basis net position end of year	\$ <u>2,093,653</u>	<u>2,007,349</u>

The City's total receipts for governmental activities increased 5.9%, or approximately \$114,500, from the prior year. The total cost of all programs and services increased approximately \$435,800, or 26%, with no new programs added this year. The increase in receipts was primarily the result of an increase in property taxes collected, while the increase in disbursements was primarily the result of an increase in capital projects disbursements.

Property tax rates for fiscal year 2016 remained fairly constant, but the City's property tax receipts increased approximately \$30,000 from the prior year due to the City's total assessed property valuation increase. Based on a slight increase in property tax rates and increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$31,000 next year.

The cost of all governmental activities this year was approximately \$2,114,000 compared to approximately \$1,678,000 last year. However, as shown in the Statement of Activities and Net Position on pages 10 – 11, the amount taxpayers ultimately financed for these activities was approximately \$1,447,800 because some of the cost was paid by those directly benefited from the programs (\$254,971) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$411,546). The City paid for the remaining “public benefit” portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2016 from approximately \$604,000 to approximately \$666,500.

Changes in Cash Basis Net Position of Business Type Activities			
		Year ended June 30,	
		2016	2015
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	383,545	372,862
Sewer		271,031	261,308
General receipts:			
Unrestricted interest on investments		954	730
Other general receipts		<u>24,920</u>	<u>28,048</u>
Total receipts		<u>680,450</u>	<u>662,948</u>
Disbursements:			
Water		428,150	434,104
Sewer		<u>275,258</u>	<u>278,051</u>
Total disbursements		<u>703,408</u>	<u>712,155</u>
Change in cash basis net position before transfers		(22,958)	(49,207)
Transfers, net		<u>(136,605)</u>	<u>-</u>
Change in cash basis net position		(159,563)	(49,207)
Cash basis net position beginning of year		<u>671,623</u>	<u>720,830</u>
Cash basis net position end of year	\$	<u>512,060</u>	<u>671,623</u>

Total business type activities receipts for the fiscal year were approximately \$680,500 compared to approximately \$663,000 last year. The slight increase was primarily due to an increase in water and sewer usage during the year and a decrease in other general receipts. Total disbursements for the fiscal year decreased 1.2% to approximately \$703,400. The decrease was primarily due to lower operating costs. The cash balance of business type activities decreased approximately \$160,000 from the prior year largely due to transfers to the Debt Service Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$2,093,653, an increase of \$86,304 above last year’s total of \$2,007,349. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$251,187 from the prior year to \$1,385,227. This is mainly due to an increase in property tax revenue and decrease in expenses related to public safety.

- The Special Revenue, Road Use Tax Fund cash balance decreased \$15,421 to \$324,164. This decrease is primarily the result of more public work disbursements compared to the prior year.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$47,935 to a deficit balance of \$67,057 due to no funds being transferred in from the general fund.
- The Special Revenue, Emergency Fund cash balance remained virtually unchanged compared to the prior year.
- The Debt Service Fund cash balance increased \$142,655 to \$147,825 due to funds being transferred in from other funds.
- The Capital Projects Fund cash balance decreased \$241,466 to \$254,288 during the fiscal year. The decrease is primarily a result of street repairs done throughout the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased \$78,763 to \$127,501. This is a result of disbursements exceeding revenues primarily due to bond payments and transfers out to debt service.
- The Enterprise, Sewer Fund cash balance decreased \$80,800 to \$384,559. This is a result of disbursements exceeding revenues primarily due to bond payments and transfers out to debt service.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 16, 2016, and included an increase of \$43,486 to revenues and a decrease of \$59,532 to disbursements. The amendment was mainly the result of less capital project work being done than planned.

Even with the budget amendment, the City exceeded the amounts budgeted in the public works and health and social services functions for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$4,497,615 of bonds and other long-term debt outstanding, compared to \$4,905,380 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2016	2015
General obligation bonds and note	\$ 3,002,615	3,320,380
Revenue bonds	<u>1,495,000</u>	<u>1,585,000</u>
Total	\$ <u>4,497,615</u>	<u>4,905,380</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,002,615 is below its constitutional debt limit of \$5,128,202. Additional information about the City's long term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. The City plans to do upgrades to the sewer system and improvements to roads.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, 304 S. Water Street, Madrid, Iowa 50156.

CITY OF MADRID
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2016

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 347,778	163	28,194	-
Public works	611,082	173,706	314,262	-
Health and social services	4,954	7,264	-	-
Culture and recreation	237,768	55,754	56,801	9,350
Community and economic development	65,833	-	-	-
General government	226,448	18,084	2,607	-
Debt service	378,622	-	-	-
Capital projects	241,798	-	-	332
Total governmental activities	2,114,283	254,971	401,864	9,682
Business type activities:				
Water	428,150	383,545	-	-
Sewer	275,258	271,031	-	-
Total business type activities	703,408	654,576	-	-
Total	\$ 2,817,691	909,547	401,864	9,682
General receipts and transfers:				
Property tax levied for:				
General purposes				
Debt service				
Employee benefits				
Emergency				
Tax increment financing				
Other city tax				
Unrestricted interest on investments				
Special assessments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

Net (Disbursements) Receipts
and Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(319,421)	-	(319,421)
(123,114)	-	(123,114)
2,310	-	2,310
(115,863)	-	(115,863)
(65,833)	-	(65,833)
(205,757)	-	(205,757)
(378,622)	-	(378,622)
(241,466)	-	(241,466)
(1,447,766)	-	(1,447,766)
-	(44,605)	(44,605)
-	(4,227)	(4,227)
-	(48,832)	(48,832)
(1,447,766)	(48,832)	(1,496,598)
589,352	-	589,352
261,781	-	261,781
143,702	-	143,702
14,406	-	14,406
105,374	-	105,374
249,477	-	249,477
4,119	954	5,073
1,081	1,006	2,087
28,173	23,914	52,087
136,605	(136,605)	-
1,534,070	(110,731)	1,423,339
86,304	(159,563)	(73,259)
2,007,349	671,623	2,678,972
\$ 2,093,653	512,060	2,605,713
\$ 324,164	-	324,164
(67,057)	-	(67,057)
147,825	131,375	279,200
254,288	-	254,288
49,206	-	49,206
1,385,227	380,685	1,765,912
\$ 2,093,653	512,060	2,605,713

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2016

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 589,352	-	143,702	14,406
Tax increment financing	-	-	-	-
Other city tax	223,327	-	9,140	916
Licenses and permits	18,084	-	-	-
Use of money and property	6,388	-	-	-
Intergovernmental	53,945	314,262	-	-
Charges for service	234,328	-	-	-
Special assessments	59	-	-	-
Miscellaneous	71,457	-	-	-
Total receipts	1,196,940	314,262	152,842	15,322
Disbursements:				
Operating:				
Public safety	261,230	-	86,548	-
Public works	214,981	329,683	66,418	-
Health and social services	4,954	-	-	-
Culture and recreation	214,870	-	20,308	-
Community and economic development	65,833	-	-	-
General government	198,945	-	27,503	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	960,813	329,683	200,777	-
Excess (deficiency) of receipts over (under) disbursements	236,127	(15,421)	(47,935)	15,322
Other financing sources (uses):				
Transfers in	15,060	-	-	-
Transfers out	-	-	-	(15,060)
Total other financing sources (uses)	15,060	-	-	(15,060)
Change in cash balances	251,187	(15,421)	(47,935)	262
Cash balances beginning of year	1,134,040	339,585	(19,122)	13,696
Cash balances end of year	\$ 1,385,227	324,164	(67,057)	13,958

Debt Service	Capital Projects	Nonmajor	Total
261,781	-	-	1,009,241
-	-	105,374	105,374
16,094	-	-	249,477
-	-	-	18,084
-	-	13	6,401
-	332	-	368,539
-	-	-	234,328
1,022	-	-	1,081
-	-	-	71,457
278,897	332	105,387	2,063,982
-	-	-	347,778
-	-	-	611,082
-	-	-	4,954
-	-	2,590	237,768
-	-	-	65,833
-	-	-	226,448
378,622	-	-	378,622
-	241,798	-	241,798
378,622	241,798	2,590	2,114,283
(99,725)	(241,466)	102,797	(50,301)
242,380	-	-	257,440
-	-	(105,775)	(120,835)
242,380	-	(105,775)	136,605
142,655	(241,466)	(2,978)	86,304
5,170	495,754	38,226	2,007,349
147,825	254,288	35,248	2,093,653

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds (Continued)
As of and for the year ended June 30, 2016

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	324,164	-	-
Employee benefits	-	-	(67,057)	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	13,958
Assigned for:				
Fire equipment	59,813	-	-	-
Park	14,142	-	-	-
Unassigned	1,311,272	-	-	-
Total cash basis fund balances	\$ 1,385,227	324,164	(67,057)	13,958

Debt Service	Capital Projects	Nonmajor	Total
-	-	-	324,164
-	-	-	(67,057)
147,825	-	-	147,825
-	254,288	-	254,288
-	-	35,248	49,206
-	-	-	59,813
-	-	-	14,142
-	-	-	1,311,272
147,825	254,288	35,248	2,093,653

CITY OF MADRID
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2016

Exhibit C

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 383,545	271,031	654,576
Miscellaneous	18,726	6,194	24,920
Total operating receipts	402,271	277,225	679,496
Operating disbursements:			
Business type activities	375,275	194,278	569,553
Excess of operating receipts over operating disbursements	26,996	82,947	109,943
Non-operating receipts (disbursements):			
Interest on investments	491	463	954
Debt service	(52,875)	(80,980)	(133,855)
Net non-operating receipts (disbursements)	(52,384)	(80,517)	(132,901)
Excess (deficiency) of receipts over (under) disbursements	(25,388)	2,430	(22,958)
Transfers out	(53,375)	(83,230)	(136,605)
Change in cash balances	(78,763)	(80,800)	(159,563)
Cash balances beginning of year	206,264	465,359	671,623
Cash balances end of year	\$ 127,501	384,559	512,060
Cash Basis Fund Balances			
Restricted for debt service	\$ 51,875	79,500	131,375
Unrestricted	75,626	305,059	380,685
Total cash basis fund balances	\$ 127,501	384,559	512,060

CITY OF MADRID

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Madrid has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Emergency Fund is used to account for property taxes levied to pay for emergency purposes.

The Employee Benefits Fund is used to account for property taxes levied to pay employee taxes and benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

CITY OF MADRID

Notes to Financial Statements (Continued)

June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public works function, as well as the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016, the City had the following investment:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$2,884</u>

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the IBM stock was determined using quoted market prices. (Level 1 inputs)

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and note and revenue bonds are as follows:

Year Ending June 30	General Obligation Bonds		General Obligation Note		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 290,000	53,141	22,594	3,728	90,000	23,095	402,594	79,964
2018	280,000	49,950	22,594	2,982	90,000	21,545	392,594	74,477
2019	280,000	46,661	22,594	2,237	90,000	31,495	392,594	80,393
2020	290,000	42,041	22,594	1,495	90,000	29,320	402,594	72,856
2021	295,000	36,723	22,239	746	95,000	27,145	412,239	64,614
2022-2026	1,330,000	96,058	-	-	510,000	120,613	1,840,000	216,671
2027-2031	125,000	3,187	-	-	380,000	63,103	505,000	66,290
2032-2035	-	-	-	-	150,000	7,987	150,000	7,987
Total	<u>\$ 2,890,000</u>	<u>327,761</u>	<u>112,615</u>	<u>11,188</u>	<u>1,495,000</u>	<u>324,303</u>	<u>4,497,615</u>	<u>663,252</u>

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$590,000 of water revenue bonds issued in June 2013. Proceeds from the bonds provided financing for water main improvements. The bonds are payable solely from water customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$548,750. For the current year, principal and interest paid and total customer net receipts were \$52,875 and \$26,996, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,160,000 of sewer revenue bonds issued in June 2013. Proceeds from the bonds provided financing for improvements to the wastewater treatment facility. The bonds are payable solely from sewer customer net receipts and are payable through 2033. The total principal and interest remaining to be paid on the bonds is \$1,270,553. For the current year, principal and interest paid and total customer net receipts were \$80,980 and \$82,947, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(4) Pension Plan (continued)

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a life-time annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

4) Pension Plan (continued)

method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City Contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 total \$56,462.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$253,664 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0051344%, which was an increase of 0.000155% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$29,950, \$74,743 and \$101,689, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increases (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

4) Pension Plan (continued)

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability:	\$ 557,453	253,664	(2,613)

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 11 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$514 for single coverage and \$1,577 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2016, the City contributed 100% of the plan membership at a cost of \$150,496.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 35,344</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 105,775
	Enterprise:	
	Water	53,375
	Sewer	83,230
		<u>242,380</u>
General	Special Revenue:	
	Emergency	15,060
		<u>\$ 257,440</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2016

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Employee Benefits Fund had a deficit balance of \$67,057 at June 30, 2016. The deficit balance was a result of increased workers compensation and health insurance costs. The TIF Fund also had a deficit balance of \$6,101 due to funds being transferred to the Debt Service Fund. The deficit balances will be eliminated upon receipt of related property tax revenues and the approval of corrective transfers.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$674 during the year ended June 30, 2016.

(11) New Accounting Pronouncement

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

(12) Commitment

In October 2015, the City entered into a contract for the construction of a new trail access point within the City with Neuvirth Construction. The total contract is \$293,235. As of June 30, 2016, the City has not made any payments on this contract.

(13) Subsequent Events

The City has evaluated all subsequent events through September 26, 2016, the date the financial statements were available to be issued.

Other Information

CITY OF MADRID
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,009,241	-
Tax increment financing	105,374	-
Other city tax	249,477	-
Licenses and permits	18,084	-
Use of money and property	6,401	954
Intergovernmental	368,539	-
Charges for service	234,328	654,576
Special assessments	1,081	-
Miscellaneous	71,457	24,920
Total receipts	<u>2,063,982</u>	<u>680,450</u>
Disbursements:		
Public safety	347,778	-
Public works	611,082	-
Health and social services	4,954	-
Culture and recreation	237,768	-
Community and economic development	65,833	-
General government	226,448	-
Debt service	378,622	-
Capital projects	241,798	-
Business type activities	-	703,408
Total disbursements	<u>2,114,283</u>	<u>703,408</u>
Deficiency of receipts under disbursements	(50,301)	(22,958)
Other financing sources, net	<u>136,605</u>	<u>(136,605)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	86,304	(159,563)
Balances beginning of year	<u>2,007,349</u>	<u>671,623</u>
Balances end of year	<u>\$ 2,093,653</u>	<u>512,060</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
1,009,241	1,010,345	1,010,345	(1,104)
105,374	-	105,775	(401)
249,477	243,585	245,311	4,166
18,084	20,300	20,275	(2,191)
7,355	6,450	7,675	(320)
368,539	324,617	340,337	28,202
888,904	899,120	929,775	(40,871)
1,081	4,500	3,000	(1,919)
96,377	49,500	49,410	46,967
2,744,432	2,558,417	2,711,903	32,529
347,778	351,500	364,025	16,247
611,082	495,105	609,225	(1,857)
4,954	4,500	4,418	(536)
237,768	224,960	257,000	19,232
65,833	86,000	87,500	21,667
226,448	238,285	235,180	8,732
378,622	378,830	378,830	208
241,798	680,000	440,000	198,202
703,408	754,695	778,165	74,757
2,817,691	3,213,875	3,154,343	336,652
(73,259)	(655,458)	(442,440)	369,181
-	550,000	440,000	(440,000)
(73,259)	(105,458)	(2,440)	(70,819)
2,678,972	2,289,827	2,289,827	389,145
2,605,713	2,184,369	2,287,387	318,326

CITY OF MADRID
Notes to Other Information – Budgetary Reporting
June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$59,532. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public works and health and social services functions.

City of Madrid
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Years*
Other Information

	2016	2015
City's proportion of the net pension liability	0.0051344 %	0.0049793 %
City's proportionate share of the net pension liability	\$ 253,664	197,474
City's covered-employee payroll	\$ 568,514	572,212
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	44.62 %	34.51 %
IPERS' net position as a percentage of the total pension liability	85.19 %	87.61 %

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

CITY OF MADRID
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
Other Information

		2016	2015	2014	2013
Statutorily required contribution	\$	56,462	52,982	53,224	50,677
Contributions in relation to the statutorily required contribution		(56,462)	(52,982)	(53,224)	(50,677)
Contribution deficiency (excess)	\$	-	-	-	-
City's covered-employee payroll	\$	612,380	568,514	572,212	553,663
Contributions as a percentage of covered-employee payroll		9.22%	9.32%	9.30%	9.15%

2012	2011	2010	2009	2008	2007
47,912	41,280	36,149	33,839	33,130	32,744
(47,912)	(41,280)	(36,149)	(33,839)	(33,130)	(32,744)
-	-	-	-	-	-
555,058	518,213	489,385	526,274	487,574	445,204
8.63%	7.97%	7.39%	6.43%	6.79%	7.35%

CITY OF MADRID

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

CITY OF MADRID
Schedule of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2016

	Special Revenue			
	Boyd Library	Helms Estate	Tax Increment Financing	Total
Receipts:				
Tax increment financing	\$ -	-	105,374	105,374
Use of money and property	9	4	-	13
Total receipts	9	4	105,374	105,387
Disbursements:				
Operating:				
Culture and recreation	840	1,750	-	2,590
Total disbursements	840	1,750	-	2,590
Excess (deficiency) of receipts over (under) disbursements	(831)	(1,746)	105,374	102,797
Other financing uses:				
Transfers out	-	-	(105,775)	(105,775)
Change in cash balances	(831)	(1,746)	(401)	(2,978)
Cash balances beginning of year	28,679	15,247	(5,700)	38,226
Cash balances end of year	\$ 27,848	13,501	(6,101)	35,248
Cash Basis Fund Balances				
Restricted for other purposes	\$ 27,848	13,501	(6,101)	35,248
Total cash basis fund balances	\$ 27,848	13,501	(6,101)	35,248

CITY OF MADRID
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Fire truck acquisition	Jan 26, 2011	3.30 %	\$ 180,750
Corporate purpose and refinancing	Mar 27, 2012	0.35 - 2.55	2,925,000
Corporate purpose and refinancing	Jun 4, 2013	1.10 - 2.20	900,000
Total			
Revenue bonds:			
Sewer	Jun 4, 2013	1.10 - 3.55 %	\$ 1,160,000
Water	Jun 4, 2013	2.50	590,000
Total			

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	135,380	-	22,765	112,615	4,356	-
	2,285,000	-	295,000	1,990,000	38,257	-
	900,000	-	-	900,000	17,243	-
\$	3,320,380	-	317,765	3,002,615	59,856	-
\$	1,070,000	-	50,000	1,020,000	30,980	-
	515,000	-	40,000	475,000	12,875	-
\$	1,585,000	-	90,000	1,495,000	43,855	-

CITY OF MADRID
Bond and Note Maturities
June 30, 2016

Schedule 3

Year Ending June 30,	General Obligation Bonds				General Obligation Note	
	Corporate Purpose and Refinancing		Corporate Purpose and Refinancing		Fire Truck Acquisition	
	Issued Mar 27, 2012		Issued Jun 4, 2013		Issued Jan 26, 2011	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	1.10 %	\$ 275,000	1.10 %	\$ 15,000	3.30 %	\$ 22,594
2018	1.20	210,000	1.10	70,000	3.30	22,594
2019	1.80	220,000	1.10	60,000	3.30	22,594
2020	1.80	225,000	1.95	65,000	3.30	22,594
2021	1.80	230,000	1.95	65,000	3.30	22,239
2022	1.80	230,000	1.95	70,000	-	-
2023	2.10	115,000	1.95	185,000	-	-
2024	2.25	120,000	2.20	185,000	-	-
2025	2.35	120,000	2.20	185,000	-	-
2026	2.45	120,000	-	-	-	-
2027	2.55	125,000	-	-	-	-
Total		\$ <u>1,990,000</u>		\$ <u>900,000</u>		\$ <u>112,615</u>

Year Ending June 30,	Revenue Bonds					Total
	Sewer		Water			
	Issued Jun 4, 2013		Issued Jun 4, 2013			
	Interest Rates	Amount	Interest Rates	Amount		
2017	1.10 %	\$ 50,000	2.50 %	\$ 40,000	90,000	
2018	1.10	50,000	2.50	40,000	90,000	
2019	2.35	50,000	2.50	40,000	90,000	
2020	2.35	50,000	2.50	40,000	90,000	
2021	2.35	55,000	2.50	40,000	95,000	
2022	2.35	55,000	2.50	45,000	100,000	
2023	2.35	55,000	2.50	45,000	100,000	
2024	3.50	55,000	2.50	45,000	100,000	
2025	3.50	60,000	2.50	45,000	105,000	
2026	3.50	60,000	2.50	45,000	105,000	
2027	3.50	60,000	2.50	50,000	110,000	
2028	3.50	65,000	-	-	65,000	
2029	3.55	65,000	-	-	65,000	
2030	3.55	70,000	-	-	70,000	
2031	3.55	70,000	-	-	70,000	
2032	3.55	75,000	-	-	75,000	
2033	3.55	75,000	-	-	75,000	
Total	\$	1,020,000	\$	475,000	1,495,000	

CITY OF MADRID
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Ten Years

	2016	2015	2014	2013
Receipts:				
Property tax	\$ 1,009,241	979,397	928,177	859,546
Tax increment financing	105,374	100,075	104,288	106,304
Other city tax	249,477	235,934	216,464	198,746
Licenses and permits	18,084	26,276	14,729	63,556
Use of money and property	6,401	6,089	6,059	4,101
Intergovernmental	368,539	318,918	440,587	1,936,752
Charges for services	234,328	221,487	206,096	206,735
Special assessments	1,081	1,772	4,365	7,235
Miscellaneous	71,457	59,571	54,611	47,309
Total	\$ 2,063,982	1,949,519	1,975,376	3,430,284
Disbursements:				
Operating:				
Public safety	\$ 347,778	359,917	326,175	316,305
Public works	611,082	450,565	444,520	432,110
Health and social services	4,954	4,285	3,910	4,160
Culture and recreation	237,768	222,746	255,779	287,767
Community and economic development	65,833	64,023	28,205	73,132
General government	226,448	180,960	189,003	167,294
Debt service	378,622	381,384	396,783	433,087
Capital projects	241,798	14,617	1,403,416	3,399,615
Total	\$ 2,114,283	1,678,497	3,047,791	5,113,470

2012	2011	2010	2009	2008	2007
788,247	759,077	740,006	681,460	630,677	588,149
104,930	86,754	42,580	-	-	-
210,326	189,546	184,018	196,485	190,788	180,565
9,143	17,358	14,429	13,975	9,941	12,364
7,432	11,959	12,488	15,304	45,888	34,033
533,370	462,546	407,747	332,053	239,585	425,411
200,046	199,009	197,658	203,925	184,450	169,381
3,317	4,865	11,048	7,717	5,449	13,172
67,921	79,273	174,843	137,522	78,354	39,638
1,924,732	1,810,387	1,784,817	1,588,441	1,385,132	1,462,713

319,403	468,790	313,050	279,988	559,301	328,991
472,242	409,121	426,480	416,309	378,406	373,658
4,000	4,000	4,000	4,000	4,049	3,802
229,810	221,489	372,128	285,361	215,486	240,583
25,247	35,404	81,105	57,774	29,854	22,210
167,207	139,870	135,435	134,075	158,746	147,211
397,472	355,335	362,222	356,042	2,410,641	289,398
607,254	152,112	95,757	48,617	1,173,743	217,010
2,222,635	1,786,121	1,790,177	1,582,166	4,930,226	1,622,863



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

24 EAST MAIN STREET • MARSHALLTOWN, IOWA 50158 • 641-753-9337 • FAX 641-753-6366
418 2ND STREET • GLADBROOK, IOWA 50635 • 641-473-2717 • FAX 641-753-6336

Elizabeth A. Miller, CPA • beth@bowmanandmillerpc.com
Nathan P. Minkel, CPA • nathan@bowmanandmillerpc.com

Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted accounting standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Madrid's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madrid's internal control. Accordingly, we do not express an opinion on the effectiveness of the City Madrid's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-16 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-B-16 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Madrid's Responses to the Findings

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Madrid's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
September 26, 2016

CITY OF MADRID
Schedule of Findings
Year ended June 30, 2016

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2016

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-16 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We continue to segregate duties as much as possible with the limited staff and resources we have.

Conclusion – Response accepted.

II-B-16 Bank Reconciliations – Bank accounts are reconciled monthly. However, they are not being reconciled back to the City's fund balance resulting in outstanding discrepancies between actual cash balances and fund balances within the system.

Recommendation – To improve financial accountability and control, fund balances should be reconciled to the bank balances monthly and variances resolved on a timely basis.

Response – Internal fund balances will be reconciled with bank balances on a monthly basis.

Conclusion – Response accepted

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

CITY OF MADRID

Schedule of Findings (Continued)

Year ended June 30, 2016

Part III: Other Findings Related to Required Statutory Reporting:

III-A-16 Certified Budget – The Council amended the budget in May 2016. However, disbursements exceeded the amounts budgeted in the public works and the health and social services function during the year ended June 30, 2016. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” This appears to be due to employee oversight.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The certified budget will be amended in a timely manner.

Conclusion – Response accepted.

III-B-16 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

III-C-16 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-16 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kurt Kruse, City Council Member, Owner of PC Not Working	Services	\$ 674

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member do not appear to represent a conflict of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

III-E-16 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- III-F-16 City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

The City Council went into closed session six times during the year ended June 30, 2016. The minutes record for four of the meetings did not document both the reason for the closed session by reference to a specific Code of Iowa exemption and/or did not document a roll call vote as required by Chapter 21.5 of the Code of Iowa, commonly known as the open-meeting law.

On February 11, 2016, the City held a special meeting to go into closed session. However, there were not procedural minutes to document both the reason for the closed session by reference to a specific Code of Iowa exemption and the roll call vote as required by Chapter 21.5 of the Code of Iowa, commonly known as the open-meeting law.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – Closed session portions of a Council meeting will have their declared reason as required and a roll call vote will be taken and documented.

Conclusion – Response accepted.

- III-G-16 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is in violation of Chapter 12B of the Code of Iowa.

Recommendation – The City should dispose of the stock in order to comply with Chapter 12B of the Code of Iowa.

Response – The IBM stock will be sold.

Conclusion – Response accepted.

- III-H-16 Transfers – The interfund transfers that the City approved before year end were never recorded.

Recommendation – The City should record all transfers on a timely basis.

Response – Transfers will be recorded in a timely manner.

Conclusion – Response accepted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- III-I-16 Financial Condition – The Employee Benefits Fund and the TIF Fund had deficit balances of \$67,057 and \$6,101, respectively, at June 30, 2016.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will monitor fund balances throughout the year and make the necessary transfers to eliminate the deficits.

Conclusion – Response accepted.

- III-J-16 Official Depositories – A resolution naming City State Bank and Commercial Federal official depositories has been approved by the City Council. The maximum deposit amount stated in the resolution for City State Bank was exceeded during the year ended June 30, 2016.

Recommendation – The amounts deposited should be reviewed periodically and the resolution naming depositories should be amended as necessary to preclude exceeding the maximum deposit authorized.

Response – We will review the depositories periodically and make any changes necessary to be in compliance with the resolution.

Conclusion – Response accepted.

- III-K-16 Local Option Sales Tax – The City's Local Option Sales Tax (LOST) ballot requires LOST receipts be used 95% for capital improvement projects and 5% for community betterment. The City's LOST receipts are credited to the General Fund and documentation is maintained to support how the funds were used. However, the amounts expended for community betterment were not in accordance with the percentage approved on the ballot.

Recommendation – The City should establish procedures to ensure LOST funds are properly expended with the LOST ballot provisions.

Response – We will establish procedures to expend LOST funds within the LOST ballot provisions.

Conclusion – Response accepted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2016

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

- III-L-16 Resident Utility Accounts – Several resident utility accounts were tested for timely payments and proper shut off procedures. One account tested has a history of being delinquent on their water bill. The City has not followed the normal shut-off notices or procedures with this account, as described in the City of Madrid's ordinance for water shut-off procedures.

Recommendation – The City should comply with the City's ordinance related to shut-off procedures.

Response – We will follow the shut-off procedures per the City ordinance.

Conclusion – Response accepted.

- III-M-16 Payroll – The City Administrator and the City Police Chief received a 1% salary bonus during the year ended June 30, 2016 in recognition of their handling of the budget in the prior fiscal year. These bonuses were approved by the City Council and included in payroll reports for the quarter ending September 30, 2015. However, the 1% bonus was not included in the respective IPERS wage report for the month ending July 31, 2015.

The City paid an IRS penalty of \$382 during the year ending June 30, 2016. The penalty was due to not mailing in Form 941 on a timely basis.

Recommendation – City officials should amend their IPERS report for the month ending July 31, 2015, and pay in the appropriate withholding and employer contributions on the 1% bonus wages.

City officials should timely file all payroll reports as statutorily required.

Response – We will amend the IPERS report for the month ending July 31, 2015 and pay in appropriate withholding and employer contributions on the 1% bonus wages. We will also file all payroll reports as statutorily required.

Conclusion – Response accepted.

- III-N-16 Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

CITY OF MADRID

Staff

This audit was performed by:

Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158

Personnel:

Elizabeth A. Miller, CPA, Partner
Nathan P. Minkel, CPA, Partner
Taylor G. Johnson, CPA, Manager